



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Legislative Fiscal Analyst
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DATE: February 22, 2006

TO: Legislative Finance Committee

FROM: Lois Steinbeck
Marilyn Daumiller
Kris Wilkinson

RE: DPHHS Budget Status Report

DPHHS FY 06 SHORTFALL

The Department of Public Health and Human Services (DPHHS) submitted a budget status report to the Legislative Fiscal Division February 17 as required by 53-6-110, MCA. At this point, the department has estimated a general fund shortfall of \$6.6 million in FY 06, which is double the shortfall estimated last time the Legislative Finance Committee met. The most recent projection is based on Medicaid paid claims through January and all other department expenditures through December 2005.

The most notable shortfalls over \$0.5 million are due to:

- o Higher than anticipated populations at the Montana State Hospital and addition of 36.6 modified FTE - \$3.7 million
- o Higher Medicaid costs due in part to a higher number of expensive neonatal cases than usual - \$2.2 million
- o Higher cost populations at the Montana Developmental Center and higher provider rate increases than funded by the legislature - \$0.7 million

Shortfalls are partially offset by a projected surplus of \$0.8 million general fund in the Senior and Long Term Care Division.

This projection does not include impacts from the most recently enacted federal budget¹. DPHHS is awaiting direction from the Centers for Medicare and Medicaid Services (CMS) to determine impacts from most of the changes. However, it has estimated a potential \$1 million shortfall due to the change that prohibits states from using Medicaid funds to pay for targeted case management for foster care children in FY 06. That short fall is not included in the most recent budget status report.

¹ The legality of budget reconciliation act signed by the President has been questioned. There is a difference between the bill passed by the U.S. House and the bill passed by the U.S. Senate. If the bill must go back for Congressional consideration, some aspects of the budget reconciliation bill could change.

2007 BIENNIUM SHORTFALL

At this point, the DPHHS short fall for the 2007 biennium could rise to at least \$20 million. That estimate is based on these assumptions:

- o Doubling the FY 06 estimate
- o Adding \$6 million due to a lower federal Medicaid match rate than estimated during session²
- o Doubling the \$1 million shortfall anticipated in foster care due to changes in federal Medicaid targeted case management for foster care

The shortfall could be even higher depending on federal definitions of what services qualify for Medicaid targeted case management and depending on whether the higher Medicaid caseload costs are due to one-time anomalies or represent a higher long-term trend.

The rationale for doubling the FY 06 estimated shortfall is that conditions causing the overruns in FY 06 are not anticipated to change radically in the next year, barring programmatic changes or other actions to reduce expenditures. For instance, state hospital population levels appear to be continuing. If DPHHS is able to implement the 105 slot community based services Medicaid waiver for adults with a serious and disabling mental illness that was requested by the department and funded by the 2005 Legislature, the additional community services could help alleviate some of the hospital population growth. In addition, DPHHS and the Department of Corrections have been considering options to jointly house and treat the forensic population at the state hospital and the prisoners with a serious and disabling mental illness.

LFC OPTION

Statute³ requires that an agency submitting a request to move appropriation authority from the second year of the biennium to the first year to cover shortfalls must prepare and submit a plan for reducing expenditures in the second year of the biennium that allows the agency to contain expenditures within appropriations. The LFC must review this plan when the approving authority submits the appropriation transfer request for LFC comment. The LFC could request that DPHHS disseminate the plan in advance of the next LFC meeting so that the plan can be evaluated and discussed by the LFC.

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² The legislature funded Medicaid services appropriations assuming a federal match rate of 70 percent for FY 07. However, the match rate will be 69.11 percent.

³ 17-1-301(1), MCA is the statutory reference.